ACME MARKETS, INC. ANNUAL REPORT Fiscal Year Ended March 30, 1968

ACME

JAMES K. ROBINSON, JR.
JOHN R. PARK
WILFRED D. GILLEN*
PAUL J. CUPP
A. J. FAULHABER
ARTHUR LITTLETON
ARTHUR C. KAUFMANN
A. KOHR SPRENKLE
CLAUDE W. EDWARDS
WILLIS J. WINN
A. E. GILFILLAN
JAMES A. HAMILL
THOMAS T. OYLER

*Deceased, May 1, 1968

PAUL J. CUPP, Chairman, Board of Directors
JOHN R. PARK, President
JAMES K. ROBINSON, JR., Vice President
A. J. FAULHABER, Vice President
A. KOHR SPRENKLE, Vice President
WM. CARLISLE FERGUSON, Vice President
CLAUDE W. EDWARDS, Vice President
GORDON E. HOVEY, Vice President
A. E. GILFILLAN, Vice President and Assistant Secretary
JAMES A. HAMILL, Vice President
THOMAS T. OYLER, Vice President and Treasurer
S. A. GOULD, Assistant to the President
E. A. COLSON, Secretary
A. BALFOUR BREHMAN, Assistant Secretary
ROWLAND G. WEBER, Assistant Secretary
ELLEN M. CAMPBELL, Assistant Treasurer
JOHN G. C. FULLER, Assistant Treasurer

GENERAL OFFICES

124 North 15th Street, Philadelphia, Pa. 19102

TRANSFER AGENTS

The First Pennsylvania Banking and Trust Company, Philadelphia, Pa.
Bankers Trust Company, New York, N. Y.

REGISTRARS

The Fidelity Bank, Philadelphia, Pa.
First National City Bank, New York, N. Y.

STOCK EXCHANGES

New York Stock Exchange
Philadelphia-Baltimore-Washington Stock Exchange

■ ANNUAL MEETING The annual meeting of stockholders will be held in the Burgundy Room of The Bellevue-Stratford Hotel, Broad and Walnut Streets, Philadelphia, Pa. on Wednesday, June 26, 1968 at 3 o'clock P.M. (E.D.S.T.).

PRINTED IN U.S.A.

Report to the Shareholders

PAUL J. CUPP
Chairman
Board of Directors

JOHN R. PARK
President

Sales for the 52 weeks ended March 30, 1968 increased to a record $1,293,764,675, representing a gain over the preceding year of $40,017,057. This is the 30th consecutive year that sales have increased.

Earnings for the year are reported at $2.81 per share on the average number of shares outstanding compared to $3.14 per share adjusted for the last stock dividend.

Both sales and earnings showed marked improvement in the second half of the year. Compared to the same period of the prior year, sales were 8.9% ahead. Second half earnings were $1.67 per share, a 45.2% improvement over the $1.15 realized for the comparable period in the prior year.

Earnings in the early part of the year were depressed as we introduced lower priced merchandising programs to improve our competitive position. Favorable customer response led to the improved sales and earnings which were attained in the second half.

During the year Alpha Beta tested a non-stamp merchandising approach which led to the decision to eliminate trading stamps in our West Coast markets early in the fourth quarter. This decision was based on competitive trends and market characteristics which convinced our Alpha Beta management of the timeliness of such a move. The heavy advertising and development costs involved in this transition had an adverse impact on fourth quarter earnings and interrupted the otherwise improving trend. The customer reaction to the new merchandising format gives every indication that the attendant heavy initial costs were sound investments for the future.

In the East, we are continuing to study and survey the various localities where we have stores to determine customer preferences. As part of this study, we are experimenting with several forms of non-stamp operations in certain communities. In most areas, however, we believe stamps continue to be a valued and effective promotional plan.

The number of stores opened was down from last year primarily because of delays experienced by developers. However, our store modernization and addition program continued at a good pace. Modernization of stores in established, sound locations creates new business and allows the presentation of a wider variety of merchandise from the ever-increasing number of items offered to the home-maker. We will expand the remodeling program this year.

At the annual meeting in June, 1967 James A. Hamill, Vice President and Thomas T. Oyler, Vice President and Treasurer, were elected Directors. Thomas H. Sherrard, a Director since 1950, and a loyal and dedicated officer and employee for 46 years, retired in keeping with the retirement policy of the Board of Directors. We are most grateful to him for the many contributions he made to the growth of the Company. Immediately following the meeting, John R. Park, President, was named Chief Executive Officer to succeed Paul J. Cupp, who continues as Chairman of the Board.

We were saddened by the death of Wilfred D. Gillen on May 1, 1968. Mr. Gillen became a member of our Board in 1953. His contributions to the Board throughout the years were outstanding. His advice and counsel will be missed.

The first half of the year was disappointing. However, improvement in the areas of merchandise planning, new facilities, store conditions, and customer service led to improved sales and earnings in the second half. This could only be accomplished by the whole-hearted support and dedication of Acme people in all areas of our business. With their continued extra effort we expect to maintain this upward trend.

Respectfully submitted,

Paul J. Cupp
Chairman, Board of Directors

President

Philadelphia, Pa.
May 22, 1968

The Year in Review

Sales Sales increased 3.2% over those of the previous year. Sales for the 52 weeks ended March 30, 1968, totaled $1,293,764,675, compared with $1,253,747,618 for the year ended April 1, 1967.

The improved sales performance in the second half of the year more than wiped out the sales deficit that had existed at the end of the first 26 weeks in comparison with the comparable period in the prior year. Recent sales have been substantially ahead of the same period last year.

The Department of Labor Price Index of Food Consumed at Home remained fairly level in 1967. Thus, sales increases in calendar 1967 represented tonnage gains. Since January, 1968 this index has edged up and predictions are that it will go higher.

Earnings Earnings for the fiscal year declined to $2.81 a share compared with $3.14 the prior year, adjusted for the 2% stock dividend paid March 30, 1968. Net earnings after taxes were $8,326,638 compared with $9,367,342 the previous year.

Investment tax credits were equivalent to 21¢ per share, down from last year's 32¢.

Lower priced merchandising programs and decreased sales reduced earnings in the first half of the year. A marked improvement in sales in the second half of the year along with better controls led to higher earnings after mid year.

Dividends Total cash dividends paid by the Company again increased and were $5,815,172 compared with $5,563,760 the previous year.

A 2% stock dividend was paid on March 30, 1968. This was the fifteenth consecutive annual stock dividend of the Company and involved the issuance of 60,206 shares valued at $2,167,416.

Financial Position Working capital increased by $11,901,196 to $69,047,086. The ratio of current assets to current liabilities was 1.82 to 1 compared to 1.71 to 1 last year. Capital expenditures for the year were $20,805,232, a decrease of $2,583,463 from the previous year.

The increase in working capital was principally provided by the term loan of $10,000,000 arranged with a group of banks, which replaced the $10,375,000 loan that was repaid in August, 1967.

The decrease in capital expenditures is a result of a lower rate of store construction than was anticipated at the beginning of the year and the continuation of some of the work at the Lincoln plant into the new fiscal year that had been scheduled for completion during the year just ended.

ACME

All dollar amounts are expressed in thousands, except per share and per sales dollar figures.

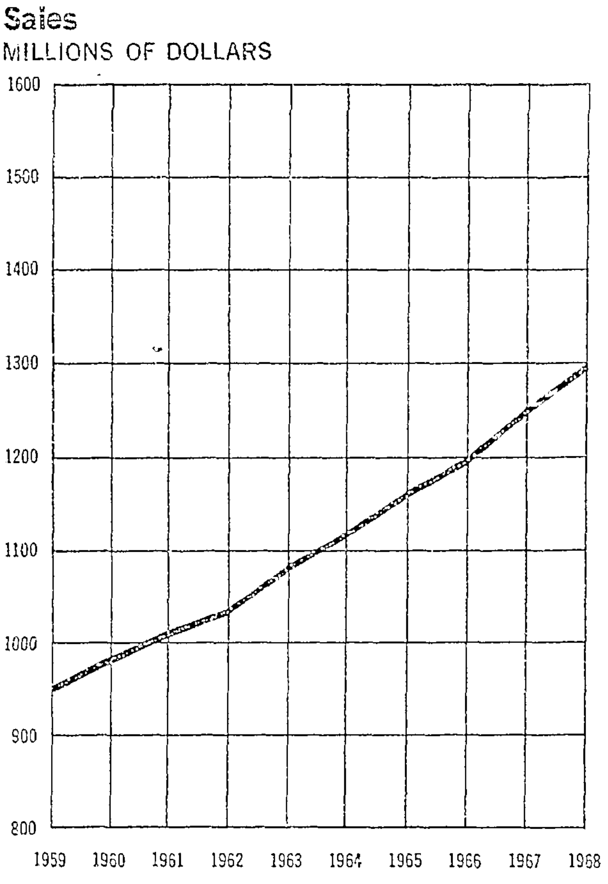
52 WEEKS ENDED	March 30, 1968	April 1, 1967	April 2, 1966	April 3, 1965[a]	March 28, 1964	March 30, 1963	March 31, 1962	April 1, 1961	April 2, 1960[a]	March 28, 1959
Sales	$1,293,765	1,253,748	1,200,750	1,161,198	1,118,686	1,081,061	1,034,879	1,011,489	982,103	953,410
Earnings before income taxes	15,027	16,317	18,685	24,314	28,120	27,091	28,230	27,543	22,467	25,324
Federal and State income taxes	6,700	6,950	8,235	11,430	14,530	14,030	14,900	14,870	11,710	13,291
Net earnings	8,327	9,367	10,450	12,884	13,590	13,061	13,330	12,673	10,757	12,033
Cash dividends	5,815	5,564	5,348	5,127	4,924	4,680	4,439	4,377	4,534	3,857
Earnings for year retained in business	2,512	3,803	5,102	7,757	8,666	8,381	8,891	8,296	6,223	8,176
Net earnings per sales dollar	0.64¢	0.75¢	0.87¢	1.11¢	1.21¢	1.21¢	1.29¢	1.25¢	1.10¢	1.26¢
Earnings per share of common stock[b]	2.81	3.14	3.48	4.26	4.45	4.28	4.38	4.18	3.58	4.02
Cash dividends per share of common stock[c]	1.96	1.86	1.77	1.69	1.61	1.53	1.46	1.41	1.43	1.25
Stock dividends	2%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Current assets	152,997	137,202	144,143	140,200	140,533	131,413	124,839	117,195	112,006	106,169
Current liabilities	83,950	80,056	71,749	63,901	62,267	56,396	56,683	51,614	49,283	42,958
Working capital	69,047	57,146	72,394	76,299	78,266	75,017	68,156	65,581	62,723	63,211
Current ratio	1.82	1.71	2.01	2.19	2.26	2.33	2.20	2.27	2.27	2.47
Plant and equipment additions	20,805	23,389	26,129	20,085	17,590	13,505	15,752	10,129	15,607	13,207
Provision for depreciation and amortization	14,159	13,650	12,744	11,834	10,843	10,464	9,694	9,032	8,768	8,203
Net plant and equipment	114,315	113,843	110,371	97,881	89,678	83,022	80,719	76,736	76,401	69,417
Total assets	274,603	258,502	257,357	240,461	232,968	217,327	209,064	196,069	190,855	178,996
Long-term debt, less current instalments	14,844	5,106	15,658	11,737	12,910	14,080	16,801	18,378	21,193	23,120
Common shares outstanding at year-end	2,963,284	2,914,205	2,799,845	2,680,992	2,588,208	2,459,730	2,334,129	2,214,849	2,097,369	1,995,080
Common stockholders' equity:										
Total	163,317	161,180	158,479	154,263	148,947	140,096	131,481	122,338	113,814	107,319
Per share[d]	55.11	54.22	52.85	51.17	48.74	45.94	43.26	40.41	37.81	35.81
Number of retail stores at year-end:										
Super markets	822	820	841	857	859	836	811	799	812	809
Other stores	69	67	61	72	24	26	34	41	50	65
Total stores	891	887	902	929	883	862	845	840	862	874

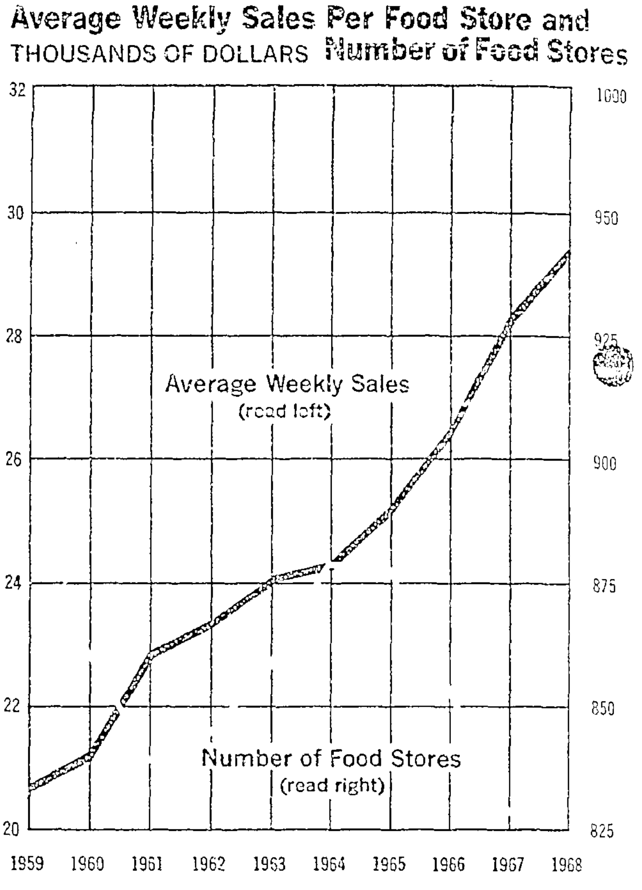
(a) 53 week period.

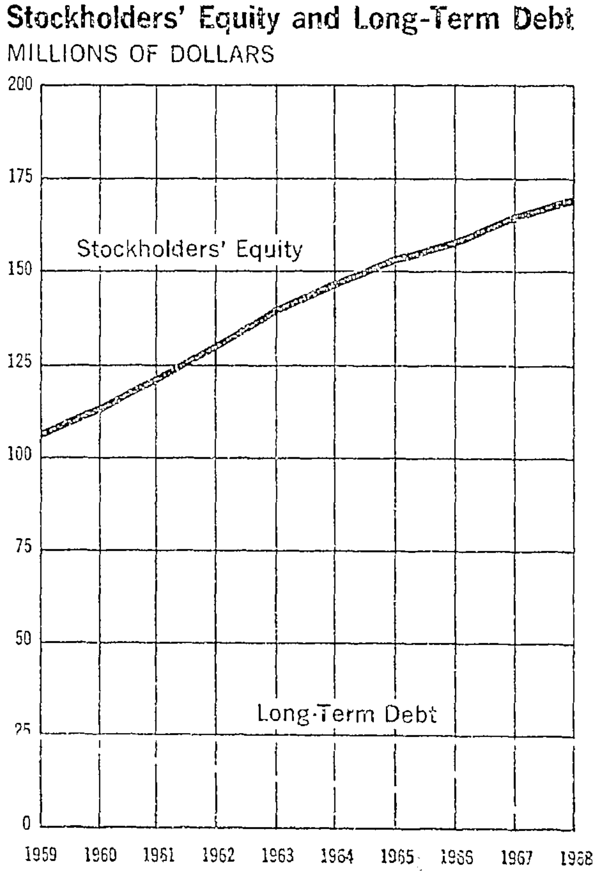
(b) Based on average number of shares outstanding during the period, adjusted for subsequent stock dividends.

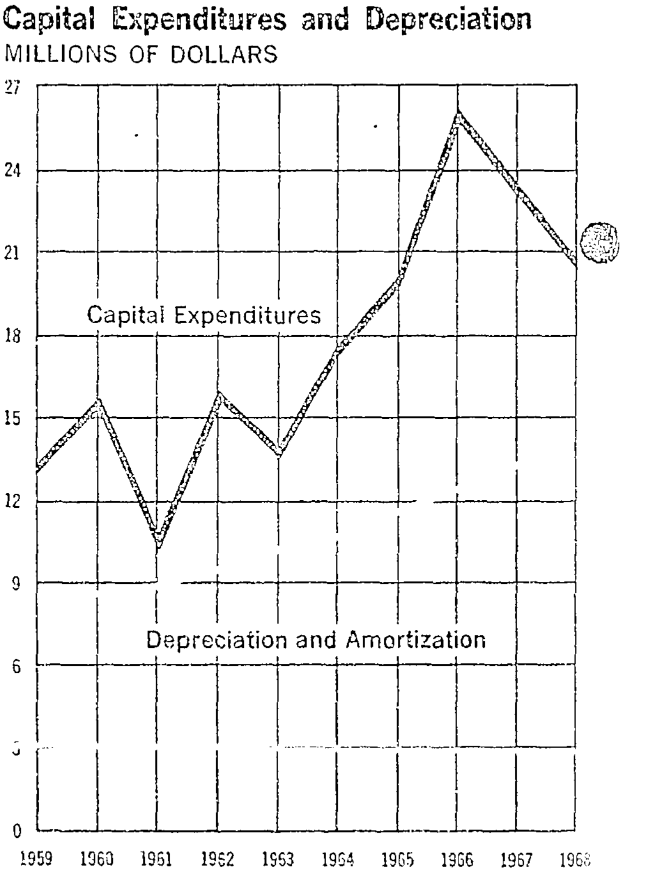
(c) *In each of the ten years cash dividends were declared on shares of Acme Markets, Inc. common stock then outstanding* at the rate of $2.00 per share. As computed above, per share cash dividends have been adjusted for subsequent stock dividends. For fiscal years 1959-61 amounts include dividends paid by an acquired company prior to merger (which in fiscal 1960 included five quarterly dividends).

(d) Based on number of shares of stock outstanding at year-end, adjusted for subsequent stock dividends.


Sales
MILLIONS OF DOLLARS
1600
1500
1400
1300
1200
1100
1000
900
800
1959 1960 1961 1962 1963 1964 1965 1966 1967 1968


Average Weekly Sales Per Food Store and Number of Food Stores
THOUSANDS OF DOLLARS
32 30 28 26 24 22 20
1000 950 925 900 875 850 825
Average Weekly Sales
(read left)
Number of Food Stores
(read right)
1959 1960 1961 1962 1963 1964 1965 1966 1967 1968


Stockholders' Equity and Long-Term Debt
MILLIONS OF DOLLARS
200 175 150 125 100 75 50 25 0
Stockholders' Equity
Long-Term Debt
1959 1960 1961 1962 1963 1964 1965 1966 1967 1968


Capital Expenditures and Depreciation
MILLIONS OF DOLLARS
27 24 21 18 15 12 9 6 0
Capital Expenditures
Depreciation and Amortization
1959 1960 1961 1962 1963 1964 1965 1966 1967

Store Program During the year 29 new food stores were opened. Included in this number were 9 Alpha Beta stores, 2 of which are in the San Francisco Bay area This year we plan to open a total of 36 food stores. Of this number, 7 will be Alpha Beta markets. In addition, Alpha Beta plans to add 3 coffee shops to the 9 they now have in operation. Flower shops have been located next to the produce department in a number of Alpha Beta stores. Remodeling in 61 stores included new fixtures and rearrangement for better utilization of sales space. Additions were made to 10 stores that needed more space to serve the customer properly. During the coming year, 85 stores will be remodeled and space added to a number that can use it profitably.

Rea & Derick opened 4 drug stores in the last year. They plan to open 3 this year, and to remodel 8.

During the year 29 food stores were closed. This number is down significantly from the prior year when it was decided to close a large number of stores where the future potential could not make a contribution to the Company's progress.

At the end of the year the Company had 891 stores in operation including 56 drug stores operated by Rea & Derick, and 8 Hy-Lo Drug Stores operated by Alpha Beta.

Facilities The new building at the meat packing and processing plant in Lincoln, Nebraska has been completed and the equipment is now being installed and put into operation. At the Pueblo, Colorado meat packing and processing plant, new equipment, now being added, will provide for more efficient processing of by-products.

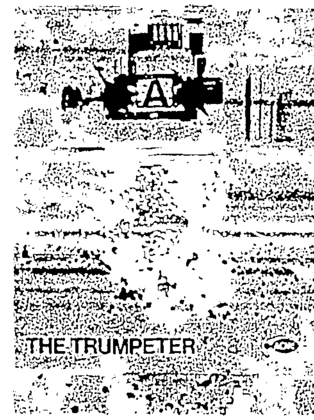
The additions and improvements made at these two plants and at the fruit and vegetable cannery at Hurlock, Maryland will further improve the efficiency of these operations.

Employee Relations Improvements were made during the year in two of the Company Employee Benefit Programs. The Management Retirement Plan was updated to insure that it continues to compare favorably with those in the industry. The Employees' Thrift Plan was amended to provide members with additional investment options for their own contributions. Now, a member may, if he desires, direct the Trustee to purchase one of three mutual funds for his account.

The employee communication program, begun in 1966, was further developed during the year. By providing employees with news and information about the Company, including information about its plans, goals, and objectives, the program seeks to develop closer employee-employer relationships, show employees how their personal welfare is dependent upon the overall success of the Company, as well as how their individual contribu-

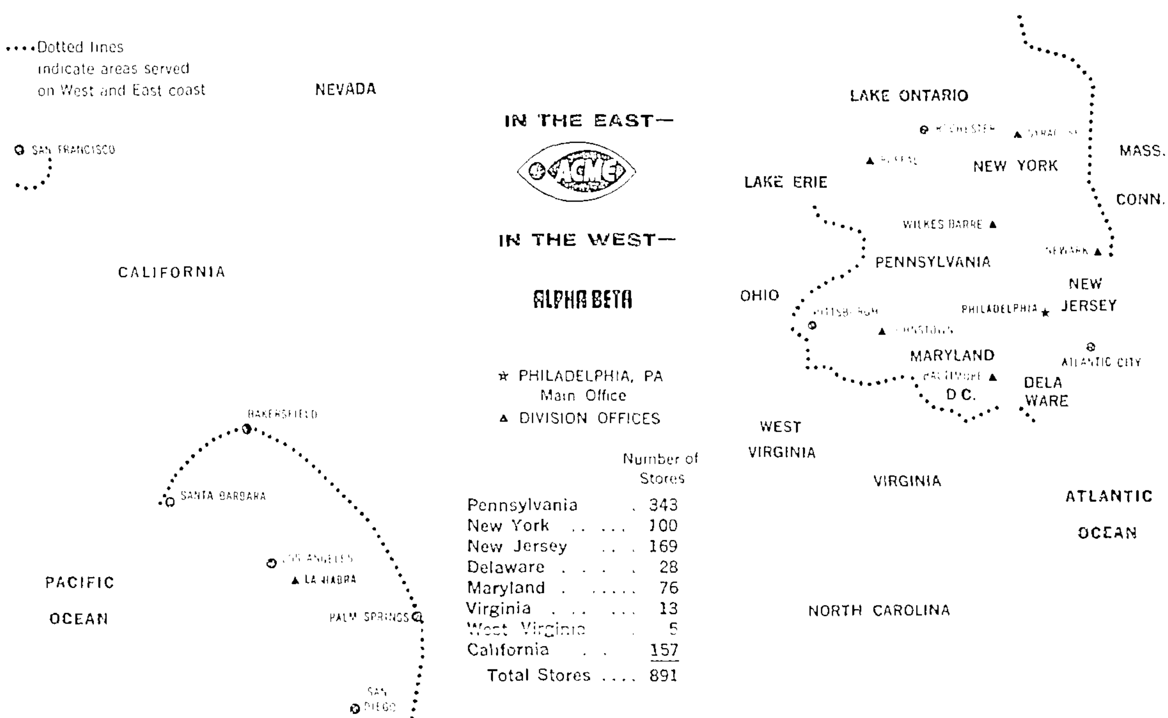
tions affect this success. Various publications are used to implement this program. The "Trumpeter", long time, company-wide employee publication, was greatly revised and expanded to meet better the program's needs.

Increased emphasis has been placed on management development. A larger number of people have participated in seminars and workshops outside the Company and more programs have been developed within the Company. Specific job training continues. Special courses to improve supervision have been introduced. These, along with orientation sessions to give all departments an understanding of the inter-relationships with other departments, help create a more effective team.



Community Relations Recognizing its responsibilities as a corporate citizen, the Company has given assistance to a number of community organizations who are endeavoring to train members of disadvantaged groups for jobs in industry. One outstanding example of this type of cooperative effort is with Dr. Leon Sullivan's Opportunities Industrialization Center. This organization with assistance from the Acme Personnel Department and training staff has developed a special training program for retail food stores.

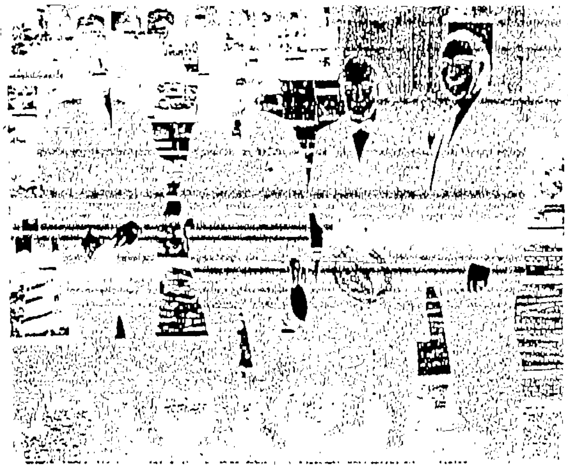
Among other community programs of the Company, are those of the Home Economics Department. In addition to its regular program of talks to women's groups and meat cutting demonstrations, a presentation entitled "How to be a Better Shopper" has been developed.



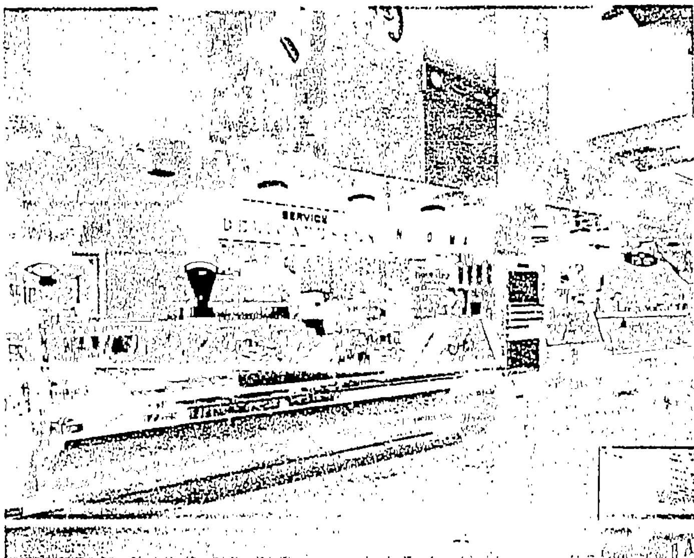
	Number of Stores
Pennsylvania	343
New York	100
New Jersey	169
Delaware	28
Maryland	76
Virginia	13
West Virginia	5
California	157
Total Stores	891

ONE OF THE STORES REMODELED AND ENLARGED DURING THE YEAR.

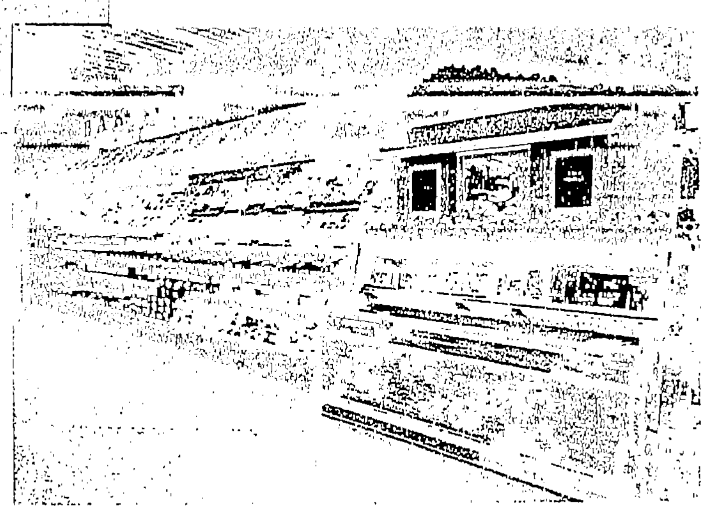
ACME



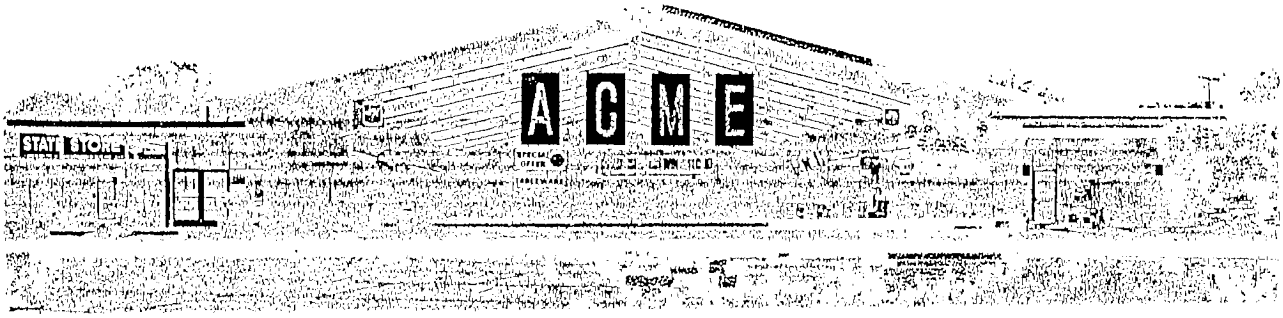
DIRECTORS: ARTHUR LITTLETON, WILFRED D. GILLEN, ARTHUR C. KAUFMANN, AND WILLIS J. WINN, DURING A VISIT OF THE DIRECTORS TO THE REMODELED STORE.



NEW SERVICE DELICATESSEN AND A LARGER DEPARTMENT FOR FRESH SEAFOOD.



EXPANDED BAKERY DEPARTMENT WITH CONTINENTAL STYLE FROZEN PASTRIES SECTION.



NEW ADDITION IS SHOWN AT RIGHT.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

THE BOARD OF DIRECTORS
ACME MARKETS, INC.:

We have examined the consolidated balance sheet of Acme Markets, Inc. and subsidiaries as of March 30, 1968 and the related statement of earnings and the statement of consolidated source and disposition of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings present fairly the financial position of Acme Markets, Inc. and subsidiaries at March 30, 1968 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period. Also, in our opinion, the accompanying statement of consolidated source and disposition of funds for the fifty-two weeks ended March 30, 1968 presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

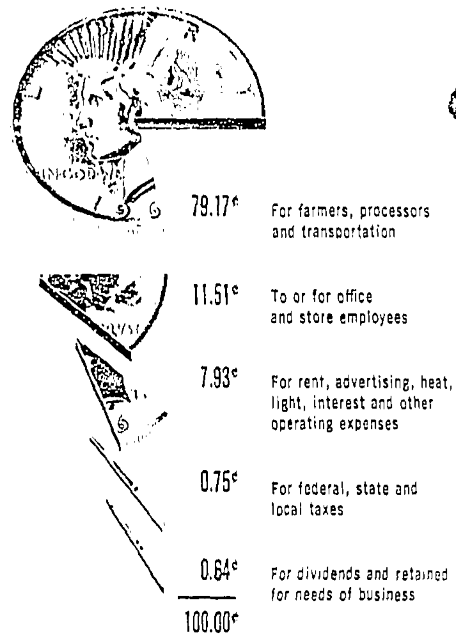
May 10, 1968

Statement of Consolidated Source and Disposition of Funds

Fifty-two weeks ended March 30, 1968
with comparative figures for preceding period

	FIFTY-TWO WEEKS ENDED MARCH 30, 1968	FIFTY-TWO WEEKS ENDED APRIL 1, 1967
SOURCE:		
Net earnings	$ 8,326,638	9,367,342
Charges against net earnings not involving the expenditure of funds:		
Depreciation and amortization	14,158,680	13,649,626
Income taxes not currently payable	507,000	822,000
Other	241,962	306,911
Total funds provided from operations	23,234,280	24,145,879
Long-term borrowing from banks	10,000,000	—
Proceeds from sale and leaseback of distribution center	4,958,573	—
Proceeds from sales of common stock pursuant to exercise of options	132,681	88,099
Miscellaneous, net	964,621	1,289,267
Total source of funds	39,290,155	25,523,245
DISPOSITION:		
Expended for plant and equipment	20,805,232	23,388,695
Long-term debt falling due within one year	261,661	10,628,434
Cash dividends	5,815,172	5,563,760
Purchase of common treasury stock	506,894	1,190,812
Total disposition of funds	27,388,959	40,771,701
Increase (decrease) in working capital	11,901,196	(15,248,456)
Working capital at beginning of period	57,145,890	72,394,346
Working capital at end of period	$69,047,086	57,145,890

HOW OUR SALES DOLLAR WAS DIVIDED



Fifty-two weeks ended March 30, 1968 (with comparative figures for preceding period)

	FIFTY-TWO WEEKS ENDED MARCH 30,	FIFTY-TWO WEEKS ENDED APRIL 1,
CURRENT EARNINGS		
Sales	$1,293,764,675	1,253,747,618
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	1,025,272,019	992,061,793
Wages, rents, advertising, administrative and other operating expenses	238,370,605	231,230,935
Depreciation and amortization (note 1)	14,158,680	13,649,626
	1,277,801,304	1,236,942,354
Operating profit	15,963,371	16,805,264
Other deductions:		
Non-operating items, net	(117,247)	52,081
Interest expense	(819,486)	(540,003)
Earnings before income taxes	15,026,638	16,317,342
Federal and State income taxes, including $507,000 not currently payable (1967—$822,000) (note 3)	6,700,000	6,950,000
Net earnings	$ 8,326,638	9,367,342
Net earnings per share of common stock (1967 adjusted for stock dividend paid in 1968)	$2.81	3.14
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of period	$ 46,398,500	48,463,822
Net earnings for the period	8,326,638	9,367,342
	54,725,138	57,831,164
Deduct:		
Cash dividends—$2 a share ($1.96 after adjustment for stock dividends; 1967—$1.86)	5,815,172	5,563,760
Stock dividend—2% (1967—5%)	2,167,416	5,868,904
	7,982,588	11,432,664
Balance at end of period	$ 46,742,550	46,398,500

See accompanying notes to financial statements.

March 30, 1968 (with comparative figures for 1967)

ASSETS	MARCH 30,	APRIL 1,
Current assets:		
Cash	$ 31,814,740	27,614,550
Receivables	6,891,117	8,168,363
Inventories, at lower of cost (average or first-in, first-out) or market	108,253,632	93,953,411
Prepaid expenses	6,037,063	6,946,643
Store properties covered by investors' commitments to purchase	—	518,496
Total current assets	152,996,552	137,201,463
Investment real estate and other assets, at cost or less	7,291,717	7,457,790
Plant and equipment, at cost:		
Land	17,084,100	15,610,737
Buildings	54,415,826	53,877,096
Machinery, equipment and fixtures	102,128,824	102,046,706
Leasehold costs and improvements	19,558,464	18,077,917
	193,187,214	189,612,456
Less accumulated depreciation and amortization (note 1)	78,872,253	75,769,104
Net plant and equipment	114,314,961	113,843,352
	$274,603,230	258,502,605

See accompanying notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 30,	APRIL 1,
Current liabilities:		
Current instalments of long-term debt (note 2)	$ 261,661	10,628,434
Accounts payable	60,562,161	48,508,532
Accrued expenses	18,829,775	17,639,876
Federal and State income taxes	4,295,869	3,278,731
Total current liabilities	83,949,466	80,055,573
Long-term debt, excluding current instalments (note 2)	14,844,304	5,105,965
Deferred income taxes and investment credit (note 3)	11,730,000	11,370,000
Reserve for self insurance and unfunded retirement benefits	762,400	791,260
Stockholders' equity:		
Common stock of $1 par value. Authorized 5,000,000 shares; issued 3,070,484 shares (1967—3,006,103 shares) (note 4)	3,070,484	3,006,103
Capital in excess of par value of common stock (note 5)	118,736,928	116,501,212
Earnings retained for use in the business, less amount capitalized through stock dividends	46,742,550	46,398,500
	168,549,962	165,905,815
Less 107,200 shares common treasury stock, at cost (1967—91,898 shares)	5,232,902	4,726,008
Total stockholders' equity	163,317,060	161,179,807
	$274,603,230	258,502,605

Notes to Financial Statements

March 30, 1968

(1) Depreciation Policy. Depreciation and amortization charged to earnings for financial statement purposes is generally computed using the straight-line method applied to individual property items; however, for income tax purposes depreciation is computed by accelerated methods applied to composite groupings of assets.

(2) Long-term Debt. A summary of long-term debt at March 30, 1968 is shown below:

	TOTAL	CURRENT INSTALMENTS	LONG-TERM
Notes payable:			
5¾% notes due August 1, 1975 ..	$10,000,000	$ —	$10,000,000
4½% note due September 1, 1970	134,533	54,735	79,798
	10,134,533	54,735	10,079,798
Purchase agreement..	4,971,432	206,926	4,764,506
	$15,105,965	$261,661	$14,844,304

On August 1, 1967 the company borrowed $10,000,000 at 5¾% from a group of banks and used the proceeds to repay $10,375,000 of long-term debt maturing on that date. The new notes are to be repaid in equal quarterly instalments of $400,000 commencing August 1, 1969. Among other things, the terms of the loan agreement require the company to maintain consolidated net working capital of not less than $45,000,000. Since working capital at March 30, 1968 amounted to $69,047,086, earnings retained for use in the business to the extent of $24,047,086 were free of restriction as to the payment of cash dividends.

The 4½% note is payable in approximately equal annual amounts to maturity and is secured by deed of trust on certain investment real estate of a subsidiary. The purchase agreement relates to a distribution center property which is included in investment real estate and requires equal semi-annual payments through 1986 applied first to interest (2⅞% during initial 10-year period) and the remainder to principal.

(3) Income Taxes. In accounting for income taxes the company recognizes the tax effects of all timing differences, principally relating to accelerated depreciation and reserves not currently tax deductible. In 1968 certain accounts previously shown net of future tax effect have been placed on a gross basis; and amounts for 1967 have been restated to conform. These and certain other minor reclassifications had no effect on net earnings.

Federal income tax expense has been reduced by $630,000 and $945,000 for the years ended in 1968 and 1967, respectively, by reason of the investment credit provisions of the Revenue Act. Credits for 1964 and prior, which were deferred, are being amortized over the estimated lives of the related assets.

The Federal income tax returns of the company for its fiscal 1963 and 1964 years are currently being examined by the Internal Revenue Service. The company is contesting certain adjustments proposed by the examining agents and management believes that adequate provision has been made for possible additional assessments.

(4) Stock Options. Under the company's stock option plans approved by the stockholders in 1952 and 1964 there were outstanding at March 30, 1968 options granted to 72 officers and key management employees to purchase 97,264 shares common stock at prices ranging from $38.75 to $64.63, such prices being either 95% or 100% of market price on the respective dates of granting, adjusted for subsequent stock dividends. The options are exercisable on a cumulative basis over a period of 10 years or less and expire on or before December 19, 1973. The changes in options outstanding during the year are summarized as follows:

Under option at April 1, 1967	82,058 shares
Additions (deductions) in 1967-1968:	
Options granted	21,200
Options exercised at $31.78 a share	(4,175)
Options expired or terminated	(3,272)
Options increased by reason of 2% stock dividend paid March 30, 1968	1,453
Under option at March 30, 1968 (at an average option price of $46.74)	97,264 shares

Under the 1964 option plan an additional 60,715 shares common stock were reserved for future option grants.

(5) Capital in Excess of Par Value of Common Stock. During the year this account was increased by the excess of:

Assigned value over par value of 60,206 shares common stock issued as a stock dividend	$2,107,210
Sales proceeds over par value of 4,175 shares common stock sold to officers and key management employees pursuant to exercise of stock options	128,506
	$2,235,716

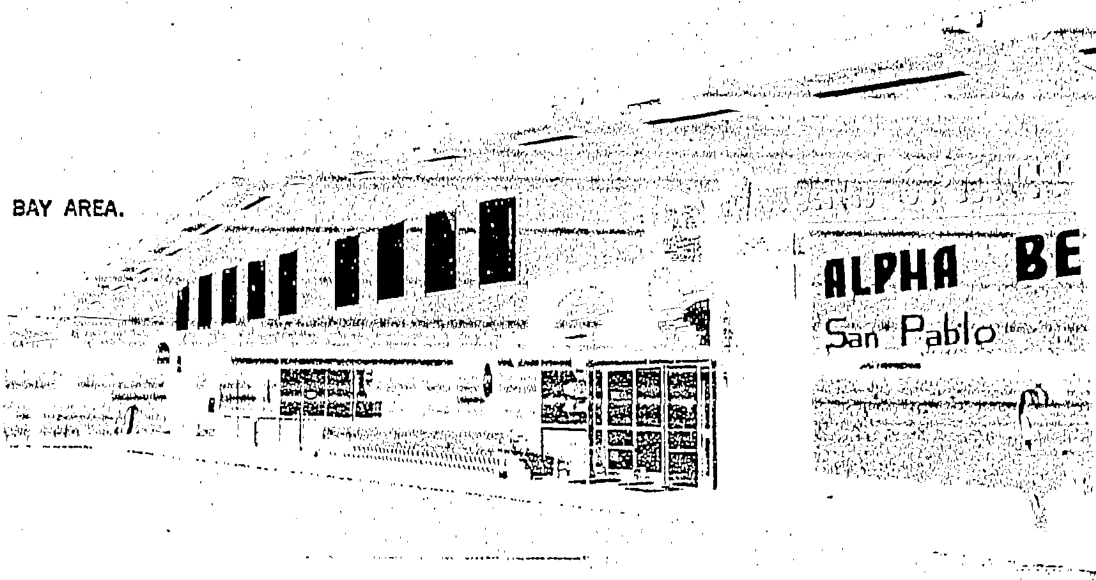
(6) Lease Commitments. At March 30, 1968 the company and subsidiaries were lessees under 940 leases, including 62 leases for stores not yet opened, covering retail locations and certain distribution center properties (one of which was sold and leased back during the year). Rent expense was $20,226,672 for the fifty-two weeks ended March 30, 1968 and aggregate future rental commitments (excluding taxes, insurance and maintenance expenses where payable by the lessee) are approximately as follows for the periods indicated:

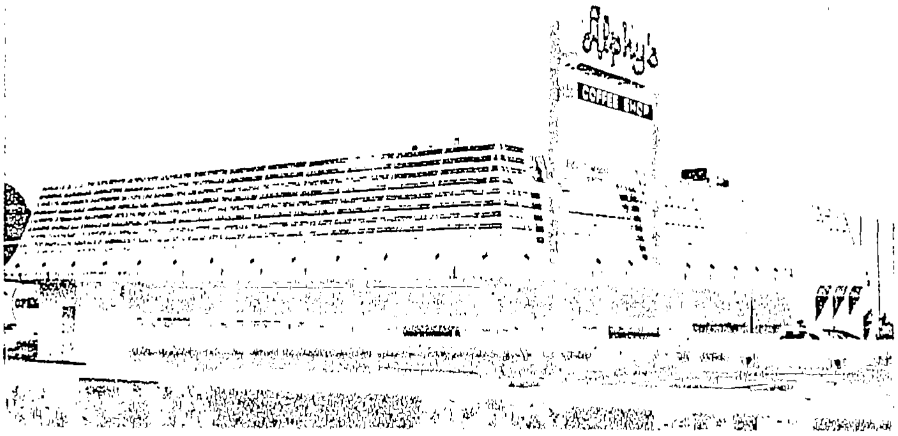
April 1, 1968—March 31, 1973	$95,091,000
April 1, 1973—March 31, 1978	64,491,000
April 1, 1978—March 31, 1983	40,678,000
April 1, 1983—March 31, 1988	15,334,000
After March 31, 1988	3,657,000

Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals.

(7) Pension Plans. Substantially all employees of the company and its subsidiaries are covered by funded pension plans. Employees who are members of bargaining units are covered by union negotiated pension plans to which the company makes contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company, which benefits were liberalized effective January 1, 1968. The total charge to earnings for all plans (including amortization of prior service cost over periods ranging to 40 years) for the fifty-two weeks ended March 30, 1968 was $4,640,586 compared with $4,400,319 for the preceding fiscal year.

THE FIRST STORE IN
THE SAN FRANCISCO BAY AREA.

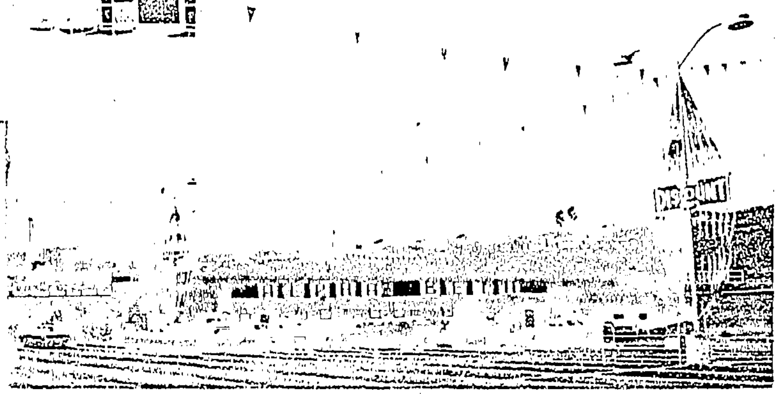




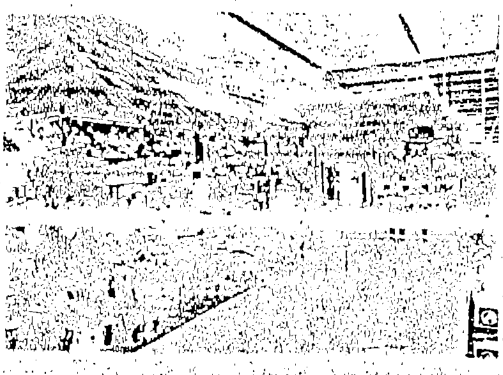
ONE OF THE NINE ALPHY'S COFFEE SHOPS.

A HY-LO DRUG STORE/
ALPHA BETA COMBINATION.

THE SANTA ANA FAD STORE,
A CONVERTED ALPHA BETA.



STORE OPENING WOODLAND HILLS, CALIFORNIA.



ALPHY'S FLORAL SHOP IN AN ALPHA BETA.